

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RETAIL GROUND AND PARCEL SELECT GROUND
SERVICE STANDARD CHANGES, 2022

Docket No. N2022-1

**CONSENT MOTION OF THE UNITED STATES POSTAL SERVICE
TO ADMIT INTO EVIDENCE THE DIRECT TESTIMONIES AND
RELATED LIBRARY REFERENCES OF POSTAL SERVICE
WITNESSES JARBOE, BRAY, AND BOZZO**

(April 19, 2022)

The United States Postal Service, with the consent of the Public Representative and in accordance with the Stipulation and Agreement between the Postal Service and the Public Representative, filed on April 14, 2022, hereby respectfully moves the Commission as follows:

1. On March 21, 2022, in accordance with 39 U.S.C. § 3661(b), the Postal Service filed its Request for an Advisory Opinion on Changes in the Nature of Postal Services (Request) seeking to upgrade the service standard for Retail Ground and Parcel Select Ground in the contiguous United States from the current two- to eight-day standard to a two- to five-day standard.
2. On March 15, 2022, in accordance with Rule 3020.111, the Postal Service conducted a pre-filing conference with respect to the planned service standard changes.
3. On March 23, 2022, the Postal Regulatory Commission (Commission) issued Order No. 6124 that, among other things, established the procedural schedule for these proceedings.

4. Order No. 6124 provided, in part, that a Technical Conference would be held in this proceeding on March 31, 2022. In addition, Order No. 6124 required all parties interested in attending the Technical Conference to pre-register by March 28, 2022.

5. On March 29, 2022, the Commission issued Order No. 6129 cancelling the Technical Conference scheduled for March 31, 2022, because no parties other than the Postal Service and Commission staff (including the Public Representative) had registered for the conference and no one had requested to speak or provided questions.

6. In accordance with the procedural schedule established by Order No. 6124, all parties seeking to intervene in this docket were required to file notice thereof by April 4, 2022. As of the filing of this motion, no party has sought to intervene.

7. On April 14, 2022, the Postal Service and the Public Representative stipulated and agreed, among other things, that (i) no further discovery requests or testimony would be filed in this proceeding unless requested by the Commission; and (ii) neither a hearing nor oral argument or examination are necessary in determining whether the planned service standard changes for RG and PSG, as described in this Docket, are in accordance with the policies of Title 39 of the United States Code and in furtherance of the public interest.

8. In the same agreement, the Postal Service agreed to move for admission into the record of the direct testimony and related library references offered in support of the subject Request.

9. Given the absence of third parties participating in these proceedings, the Postal Service urges the Commission to expedite resolution of the Request and, to that

end, respectfully requests that the Commission admit the following testimony and related library references into the record without the need for oral hearings:

Testimonies:

- a) The Direct Testimony of Steven E. Jarboe on Behalf of the United States Postal Service (USPS-T-1 (revised));
- b) The Direct Testimony of Kevin P. Bray on Behalf of the United States Postal Service (USPS-T-2);
- c) The Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service (USPS-T-3) (revised).

Library References:

Public

	<u>Title</u>	<u>Witness</u>
USPS-LR-N2022-1-1 (revised)	Cost Information	Bozzo

Non-Public

	<u>Title</u>	<u>Witness</u>
USPS-LR-N2022-1-NP1	Market Analysis	Jarboe
USPS-LR-N2022-1-NP2	Commercial Shipper Survey	Jarboe
USPS-LR-N2022-1-NP3 (original)	Mail Processing and Transportation Cost Information	Bozzo
USPS-LR-N2022-1-NP3 (revised)	Mail Processing and Transportation Cost Information	Bozzo
USPS-LR-N2022-1-NP4	Service Standard Impact Analysis	Bray

10. For each of the Postal Service's witnesses, the following are attached to this Motion:

- (a) their testimony; and
- (b) a declaration supporting the authenticity of the testimony and the library references accompanying the testimony, with an index of those library references sponsored by the witness.

11. As reflected in the Stipulation and Agreement, the Public Representative consents to admission of the testimony and library references identified in paragraph 9 above.

WHEREFORE, the Postal Service respectfully requests that the Commission grant this Motion and admit the proffered testimony and library references into record evidence for these proceedings.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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April 19, 2022

**DECLARATION AND TESTIMONY OF WITNESS STEVEN E. JARBOE
(USPS-T-1)**

**POSTAL REGULATORY COMMISSION
DOCKET NO. N2022-1**

**DECLARATION OF UNITED STATES POSTAL SERVICE WITNESS
STEVEN E. JARBOE**

I, Steven E. Jarboe, hereby declare, under penalty of perjury, that:

1. The attached Direct Testimony of Steven E. Jarboe on Behalf of the United States Postal Service, USPS-T-1 (revised) was prepared by me or under my direction, and is true and correct to the best of my information, knowledge, and belief.

2. If I were to testify orally today, my testimony would be the same as that reflected in the written testimony.

3. I am sponsoring the following Library References:

Nonpublic:

USPS-LR-N2022-1-NP1

Market Analysis

USPS-LR-N2022-1-NP2

Commercial Shipper Survey

**Steven E
Jarboe**

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Date: 2022.04.19
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Steven E. Jarboe

DATE: April 19, 2022

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RETAIL GROUND AND PARCEL SELECT GROUND
SERVICE STANDARD CHANGES, 2022

Docket No. N2022-1

**DIRECT TESTIMONY OF
STEVEN E. JARBOE
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

(USPS-T-1)

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AUTOBIOGRAPHICAL SKETCH

My name is Steven Jarboe, I am the Director of Shipping and Commerce Strategy for the United States Postal Service, reporting to the Vice President of Business Solutions. I have held this position since May 2021. In this role my office and I are charged with development, implementation, and deployment of new shipping strategies and solutions that enable the Postal Service to deliver on the needs of consumers and businesses, while remaining laser focused on our mission to bind the nation and deliver for America.

In my prior role as Senior Plant Manager in Jacksonville, Florida, I was accountable for managing a complex mail processing and transportation network servicing Southern Georgia and Northern Florida. My 19-year Postal Service background is rooted in mail processing and operations serving as an Area Manager of In-Plant Support, Industrial Engineer, Operations Support Specialist, and as the Manager, Bulk Mail Center. As Senior Plant Manager, I oversaw more than 1,200 employees across six mail and package processing facilities with processing and network responsibility for more than 3.5 billion pieces annually. I graduated from the University of Missouri–Columbia with a Bachelor of Science degree in Industrial Engineering, as well as certifications for lean practices and continuous improvement.

1 **ASSOCIATED LIBRARY REFERENCES**

2 I sponsor the following non-public USPS Library Reference that are associated
3 with my testimony:

4 USPS-LR-N2022-1-NP1; and

5 USPS-LR-N2022-1-NP2.

I. INTRODUCTION

On March 23, 2021, the Postal Service published a ten-year strategic plan, entitled Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence (Plan). The Plan sets forth a comprehensive and balanced set of initiatives to address the Postal Service's long-standing financial, service, and operational challenges. Ultimately, the Plan is designed to achieve two fundamental goals: service excellence, defined as meeting or exceeding 95 percent on time delivery across all product categories, and financial sustainability, by enabling the Postal Service to achieve break-even performance over the next ten years while making the necessary investments in people and infrastructure. By achieving these goals, the Plan will ensure that the American people receive prompt, reliable, and efficient universal postal services, through a postal system that is self-sustaining and capable of meeting their evolving needs.

In furtherance of the Plan's fundamental goals of service excellence and financial sustainability, the Postal Service proposes adjusting the service standards for its Retail Ground (RG) and Parcel Select Ground (PSG) competitive products within the contiguous United States to align with the service standard for First-Class Package Service (FCPS) by upgrading the standards from the current two- to eight-day standard to a two- to five-day standard.

A. Retail Ground and Parcel Select Ground Service

RG is an economical ground shipping solution for retail (single-piece) customers for packages, thick envelopes, and tubes weighing less than 70 pounds and up to 130 inches combined length and girth, that are not required to be sent as First-Class Mail.

1 RG service is available at Post Offices and other postal retail facilities. Pricing depends
2 on package weight, size, and the distance to be shipped.

3 PSG is similar to RG but targeted at commercial shippers. Like RG, PSG is
4 limited by weight and overall size and priced by weight, size, and the distance to be
5 shipped. Unlike RG, PSG allows for initial entry of packages into the mail flow both at
6 Post Offices and downstream processing and distribution centers.

7 For full network coverage in the contiguous 48 states, both RG and PSG have a
8 service standard ranging from 2 to 8 days. The change in service standards is
9 presented in detail in section I.C. below.

10 **B. The Opportunity**

11 To evaluate the market potential of upgrading RG and PSG service standards,
12 the Postal Service considered market data and industry trends in relation to the Postal
13 Service product line and concluded that there was significant unmet market demand for
14 a medium-speed, low-cost ground transportation product for shipping packages that
15 was not addressed by any existing Postal Service product.

16 The planned change to a 2- to 5-day service standard for FCPS presented the
17 Postal Service with an opportunity to modify the existing RG and PSG products, which
18 are currently considered deferrable, low-speed, low-cost products, by aligning them with
19 the FCPS service standard and mail flow to address the unmet market demand for a
20 medium-speed, low-cost shipping alternative.

21 **C. The Planned Service Standard Changes**

22 As described in greater detail in the testimony of the Postal Service's operational
23 witness, Kevin Bray (USPS-T-2), RG and PSG products will be consolidated with FCPS

1 for processing and transportation within the contiguous United States. That
 2 consolidation will allow RG and PSG to upgrade its current 2- to 8-day service standard
 3 to match the FCPS 2- to 5-day service standard. The table below compares the current
 4 to the new service standards:

Service Standard	Current Rules (Contiguous US)	Planned Rules (Contiguous US)
2-day	If Origin and Destination Processing and Distribution Center (PDC) are the same facility, then Service Standard is 2 days.	Intra-SCF and Origin to Destination pairs where total transit time is up to 8-hrs* (~372 miles) from Origin to Destination ADC to Destination SCF.
3-day	If Origin and Destination Processing and Distribution Center (PDC) are not the same facility, then the package is routed through a Network Distribution Center (NDC) and an Auxiliary Service Facility (ASF), if needed. If Origin and Destination NDC are the same, and there is no ASF required, then Service Standard is 3 days.	Where the total transit time is greater than 8-hrs and up to 32-hrs* (~1,488 miles) from Origin PDC to Destination ADC to Destination SCF.
4-day	If Origin and Destination NDC are the same, and there is an ASF required, then Service Standard is 4 days.	Where the total transit time is greater than 32-hrs and up to 50-hrs* (~2,325 miles) from Origin PDC to Destination ADC to Destination SCF.

5

Service Standard	Current Rules (Contiguous US)	Planned Rules (Contiguous US)
5-day	If Origin and Destination NDC are not the same, determine the travel days between NDC facilities. If an ASF is not required, and the travel time between NDC facilities is 1 day or less, then the Service Standard is 5 days.	Where the total transit time is greater than 50-hrs from Origin PDC to Destination ADC to Destination SCF.
6-8 day	If Origin and Destination NDC are not the same, determine the travel days between NDC facilities within Service Standard Directory (SSD). If ASF is not required, then the Service Standard = travel time of 2 or more + 4. If ASF is required, then the Service Standard = travel time of 2 or more + 5.	N/A

1
 2 The planned RG and PSG service standards are predicated on the planned
 3 change to the FCPS service standards and the concomitant improvement and
 4 optimization of the Postal Service's package processing and surface network and
 5 depends on consolidation with FCPS domestic surface volumes. If the planned FCPS
 6 standards were applied to domestic RG and PSG packages originating and destinating
 7 outside the contiguous United States, that volume would have to be carried by air to
 8 meet the planned service standard, which cannot be done cost effectively. RG and PSG
 9 packages sent to or from domestic locations outside the contiguous United States will,
 10 therefore, continue at this time to be shipped by the current modes of transportation in
 11 accordance with the current service standards.¹ That said, we are exploring whether

¹ The service standards for offshore RG and PSG are the same as those for Market-Dominant Package Services, which can be found at 39 CFR § 121.4, App'x A, Table 4.

1 this proposal could enable the Postal Service to adjust the service standards for any
2 piece originating or destinating outside the contiguous United States that traverses the
3 contiguous United States during some portion of the piece's journey, to potentially take
4 advantage of the faster service to RG and PSG within the contiguous United States that
5 would be provided based upon this proposal.

6 Likewise, packages containing Hazardous Materials that are restricted from air
7 transportation would not be included in the planned service standards because some
8 RG and PSG packages may be routed by air transport where it is more cost effective to
9 do so. Hazardous Materials will continue to be accepted and handled in a ground
10 network—and subject to the current service standards—that is designed to promote
11 safety and prevent items ineligible for air transportation from being transported by air.
12 Live animals shipped by RG would also be excepted from the new service standards.

13 **II. MARKET RESEARCH AND PROJECTED MARKET IMPACT**

14 Through an analysis of our shipping products and solutions conducted by my
15 office, research and insights firms, and industry feedback among the shipping
16 community, it was determined that the package shipping market is large and growing.
17 That growth is being fueled by changes in business and consumer trends, which has
18 pressure tested the industry and resulted in strategic realignment of networks and
19 facilities to reduce dependency on costly air transit and to pivot to more cost-efficient
20 and reliable ground delivery.

21 Our analysis disclosed an unmet market need for an economically priced,
22 medium-speed ground shipping product to continue to provide widespread service, and
23 meet the needs of growing consumers and businesses, while supporting innovation that

1 our products enable. In that respect, however, our analysis also uncovered that, at
2 present, our products are not poised to meet the growing needs of consumers and
3 businesses for an efficient, reliable, economically priced ground solution. The
4 conclusion of our analysis was directional and revealed our greatest opportunity to build
5 price and service parity by aligning RG and PSG with FCPS standards. This move
6 would improve service by creating a new operational reality for businesses and
7 consumers that utilize RG and PSG.

8 This change would provide greater network efficiencies by aligning these
9 products with a distinct network flow which would alleviate the down-ward pressure to
10 maintain various service standards with different products.

11 **A. The Market for Medium Speed, Low-Cost Product for Large**
12 **Packages**

13 The Postal Service engaged the Boston Consulting Group (BCG), as well as The
14 Colography Group (CG) to evaluate the market for shipping packages. CG provided
15 package shipping volume data by transport mode, delivery time, and carrier. CG
16 volume data indicates there were 17.9 billion ground packages shipped in 2021.²

17 Further, CG concluded that the market for ground shipping service was not only
18 large but growing.³ Thus, in 2017, ground shipping service represented 72 percent of
19 overall annual volume (air and ground transportation combined) and increased to 76
20 percent of overall volume by 2021.⁴ And because more commercial shippers are

² See USPS-LR-N2022-1-NP1.

³ See *id.*

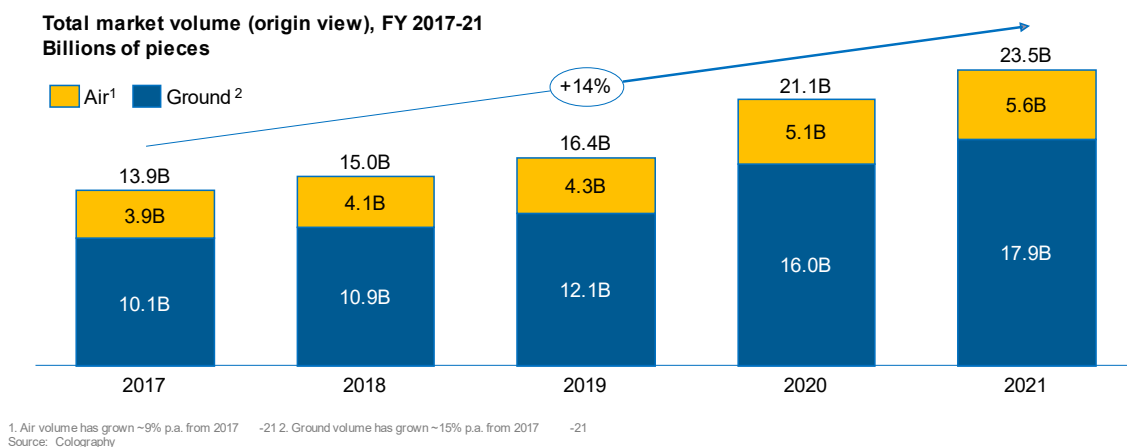
⁴ See *id.*

relocating inventories closer to urban centers, the demand for ground shipping service is likely to continue to increase.⁵

Moreover, it is our experience that ground shipping customers tend to be more price conscious.

Figure 1 – Package Shipping Market Overview

Market volume has grown ~14% p.a. from 2017-21, driven primarily by growth in volume of ground shipments



BCG conducted interviews with shipping industry leaders, logistics experts, mid-market shippers and an online survey of commercial e-commerce business shipping decision makers to understand how they prioritize shipping services and features and assess their price sensitivity to changes in time-in-transit, which generated favorable results and responses that demonstrated existing demand for increased package delivery speed.⁶

⁵ See *id.*

⁶ See USPS-LR-N2022-1-NP2.

1 **B. Market Trends**

2 During the pandemic, e-commerce experienced significant growth and with it the
3 market for shipping and delivering commercial packages. We expect this increased
4 reliance on e-commerce to continue and to sustain package shipping volumes into the
5 foreseeable future. Indeed, the BCG market survey indicates that retailers have the
6 same expectation, as retailers continue to expand their Business-to-Consumer (B2C)
7 business models and to relocate inventory to smaller facilities closer to population
8 centers.

9 The increase in market demand for a low-cost, medium-speed, package shipping
10 product is driven by more than just increased e-commerce and B2C sales. As retailers
11 move their inventories closer to population centers, there is less need for expedited,
12 long-haul shipments and an increasing need for short distance, less-expensive ground
13 transportation, a need that is well suited for RG and PSG services with shortened
14 service standards in the contiguous United States.

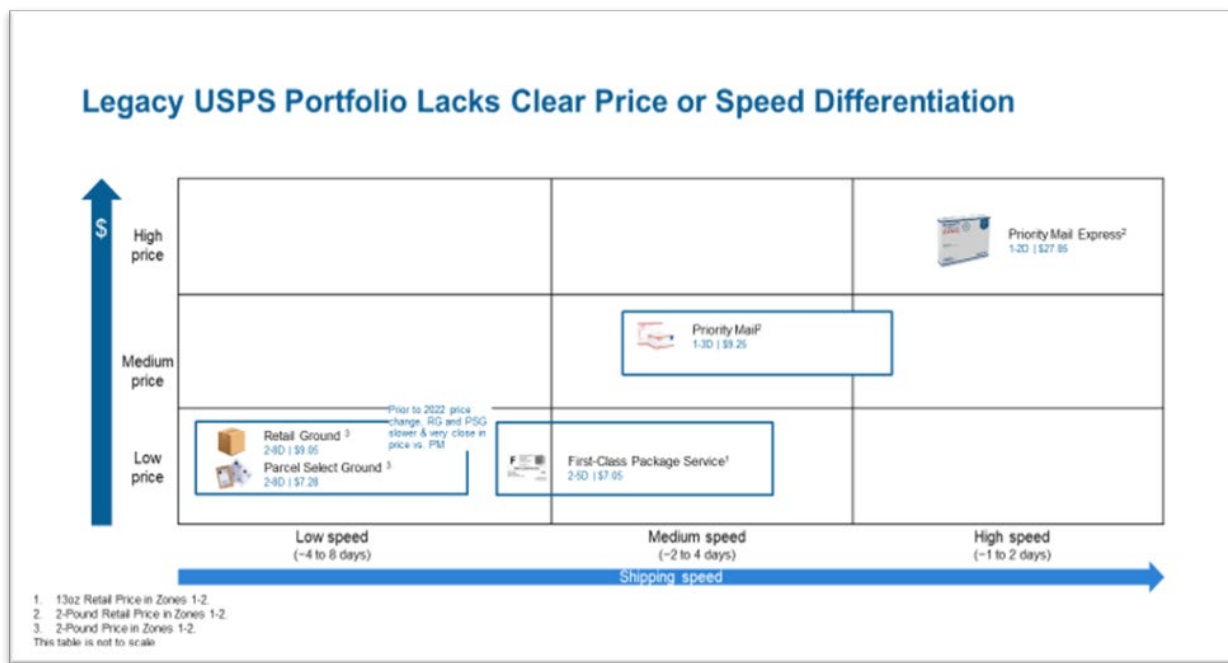
15 **C. Product Benchmarking**

16 Historically, Priority Mail (PM) has been the Postal Service's only product option
17 for price/time in transit for weight rated products. But, within the package delivery
18 market, PM is considered a medium-speed, medium-priced product—a market section
19 wherein PM currently competes with private-sector competitors.

20 FCPS provides a medium-speed, low-price shipping option for lightweight (less
21 than a pound) packages. But the Postal Service has no similar product for large
22 packages in the medium-speed, low-price market sector. Indeed, prior to January 2022,
23 RG-PSG were priced similarly to PM, despite offering significantly slower time in transit.

Recognizing the problematic pricing similarity of RG-PSG and PM, in January 2022, the Postal Service reduced prices for RG and PSG to improve the desirability of these products within the low-speed, low-priced market sector for large packages. But the Postal Service still had no product to fill the medium-speed, low-priced market for heavy packages. And, at 2- to 8-days, the service standard for RG-PSG simply does not align with and is considerably slower than comparable products of private-sector competitors.

Figure 2 – Products by Market Segment



Then, in September 2021, the Commission reviewed the Postal Service's Request to change the service standard for FCPS from 2- to 3-days to 2- to 5-days. In preparing to implement that change, we undertook to evaluate the opportunity to create a medium-speed, low-priced ground transportation product for large packages by aligning RG and PSG operations with FCPS. By combining RG and PSG processing and transportation with FCPS, we can serve market demand for a medium-speed, low-

1 price ground transportation product for shipping large packages within the contiguous
2 United States without appreciably increasing the Postal Service's cost of that service.
3 In addition, having a 2- to 5-day product for both light and heavier packages will better
4 align the Postal Service's product portfolio to the package shipping market and enable
5 the Postal Service to better compete with its private-sector competitors.

6 Witness Bray (USPS-T-2) testifies as to how that alignment will be achieved
7 operationally and Witness Bozzo (USPS-T-3) testifies as to the costs of aligning RG,
8 PSG and FCPS.

9 To evaluate the market opportunity for an enhanced RG-PSG product, we
10 considered industry expert and customer/shipper interviews and market data on our
11 existing share of comparable market segments. We concluded that RG-PSG when
12 aligned with the new First-Class Package Service standards, which are expected to be
13 implemented soon, will allow the Postal Service to be better positioned to meet the
14 growing consumer and business needs for a medium-speed, low-price ground
15 transportation solution for shipping large packages within the contiguous United States.

16 **III. POTENTIAL IMPACT ON OTHER POSTAL SERVICE PRODUCTS**

17 In making this change, one issue to consider is the potential impact an enhanced
18 RG-PSG product might have on other Postal Service Products. Thus, combining the
19 processing and transportation of RG-PSG with FCPS may lead to some changes in the
20 carriers that the Postal Service uses for FCPS traffic currently. As discussed in witness
21 Bozzo's testimony, the impact on FCPS costs is minimal.

22 Because the enhanced RG-PSG product is priced below PM, which presently
23 serves the medium-speed, medium-price market segment, an enhanced RG-PSG

product may result in some diversion of PM volumes. The level of diversion depends on the level of customer price sensitivity and specific service needs, given that PM remains a faster option in some lanes, with a 1- to 3-day service standard, and therefore offers service enhancement that would continue to differentiate PM from an enhanced RG-PSG. Moreover, PM offers flat rate pricing, included insurance, as well as various Postal Service-offered packaging container options, which differentiate it from RG-PSG. Overall, while some diversion from PM could occur, by improving RG-PSG we are giving customers a new option to satisfy their shipping needs, and thereby better meeting the needs of our customers.

IV. THE PLANNED CHANGE IS CONSISTENT WITH THE POLICIES AND REQUIREMENTS OF TITLE 39, UNITED STATES CODE

The Postal Service is charged to provide adequate, reliable, efficient, prompt, and economical, Nationwide postal service without undue or unreasonable discrimination. The Postal Service has designed its planned service standard changes with certain intended objectives. In particular, the Postal Service seeks to enhance the value of postal services to both senders and recipients; to preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining; and to reasonably assure Postal Service customers of delivery reliability, speed, and frequency consistent with reasonable rates and best business practices.

In furtherance of these objectives, the planned RG-PSG service standard changes would enhance service to customers sending larger packages—packages that exceed the size and weight limits of FCPS. By consolidating RG and PSG volume with FCPS volume, the Postal Service can offer faster service for larger packages.

1 In addition, a faster option for shipping large packages economically will close
2 the existing gap in the Postal Service's product portfolio that will serve to satisfy
3 significant unmet demand for a medium-speed, low-price shipping option for weight-
4 rated packages. As discussed above, the value of that market segment is substantial.

5 Shifting RG and PSG volume to follow FCPS volume would also enable the
6 further optimization of the Postal Service's package processing and surface
7 transportation networks. This added volume would fill existing unused capacity,
8 maximizing surface transportation utility and value. In addition, by eliminating the
9 current interim processing stops, the Postal Service can reduce the overall processing
10 burden while at the same time improving speed and reliability by reducing touch points.
11 And, by combining multiple sorts, the change would improve volume and capacity in
12 surface lanes.

13 Lastly, the planned changes would not impair compliance with the policies of
14 section 3633 regarding the financial performance of competitive products. As a
15 competitive product, RG-PSG would maintain revenues that cover their attributable
16 costs, as required by section 3633(a)(2). Likewise, with respect to the other provisions
17 of section 3633, there is no increased risk of cross-subsidization of competitive products
18 by market dominant products, or any diminishment in the expected ability of competitive
19 products collectively to cover an appropriate share of the Postal Service's institutional
20 costs.

21 Moreover, these changes will not cause any undue or unreasonable
22 discrimination against any users of the mail. The changes are based on time and
23 distance, which is already used for both First-Class Mail and FCPS.

V. CONCLUSION

By adjusting the processing and transportation of our RG and PSG competitive products within the contiguous United States to align with the FCPS, we can upgrade the applicable RG and PSG service standards from the current two- to eight-day standard to a two- to five-day standard. The enhanced service would benefit customers by providing faster service for large package shipments without increasing prices. The change will also benefit the Postal Service by increasing market share and revenue and allowing us to serve a presently underrepresented market segment without appreciable increased costs. Ultimately, the change will further the Postal Service's fundamental goals of service excellence and financial sustainability.

**DECLARATION AND TESTIMONY OF WITNESS KEVIN P. BRAY
(USPS-T-2)**

**POSTAL REGULATORY COMMISSION
DOCKET NO. N2022-1**

**DECLARATION OF UNITED STATES POSTAL SERVICE WITNESS
KEVIN P. BRAY**

I, Kevin P. Bray, hereby declare, under penalty of perjury, that:

1. The attached Direct Testimony of Kevin P. Bray on Behalf of the United States Postal Service, USPS-T-2, was prepared by me or under my direction, and is true and correct to the best of my information, knowledge, and belief.

2. If I were to testify orally today, my testimony would be the same as that reflected in the written testimony.

3. I am sponsoring the following Library References:

Nonpublic:

USPS-LR-N2022-1-NP4

Service Standard Impact Analysis

Kevin Bray

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Bray
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Kevin P. Bray

DATE: April 19, 2022

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RETAIL GROUND AND PARCEL SELECT GROUND
SERVICE STANDARD CHANGES, 2022

Docket No. N2022-1

**DIRECT TESTIMONY OF
KEVIN P. BRAY
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

(USPS-T-2)

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AUTOBIOGRAPHICAL SKETCH

My name is Kevin Bray. I am the Executive Manager of the Mail Processing Infrastructure and Optimization group for the United States Postal Service, reporting to the Vice President of Mail Processing and Maintenance. I have held this position since May 8, 2021. In this role my office and I are charged with the development and support for mail processing systems and applications that enable Managers and Supervisors to process mail effectively and efficiently through the Postal network. I am also charged with the management of the Area Mail Processing team that provides implementation for all facility consolidations.

In my prior role as Area Manager of In Plant Support, Capital Metro Area, I was accountable for managing numerous Mail Processing operations and a transportation network servicing Georgia, North and South Carolina, Virginia, Maryland, and the District of Columbia. My 27-year Postal Service background is rooted in mail processing and operations serving as an Area Manager of In-Plant Support, Operations Support Specialist, Program Manager for Mail Tracking and Reporting, and Senior Business Programs Analyst. I have a degree in Electronics Technology from the Air Force Institute of Technology. I have also received certifications for lean practices and continuous improvement.

1 **ASSOCIATED LIBRARY REFERENCES**

2 I sponsor the following non-public USPS Library Reference that are associated

3 with my testimony:

4 USPS-LR-N2022-1-NP4.

I. INTRODUCTION

My testimony describes the nature of the changes in service that the Postal Service proposes to implement in fiscal year 2022 to revise the current service standards for the Retail Ground (RG) and Parcel Select Ground (PSG) services. The Postal Service proposes to upgrade the service standards for RG and PSG in the contiguous United States from 2-8 days to 2-5 days. These changes would correspond to, and be enabled by, a simplified operational methodology whereby the Postal Service would process and transport RG and PSG products together with First-Class Package Service (FCPS) mailings.

My testimony aims to describe this new operational methodology (along with the improved service standards that this operational methodology makes possible) in detail. I accordingly begin by depicting the current-state operational flow of RG and PSG products, along with the service standards currently in place for RG and PSG products. I then describe the transportation network along which, in the future state, RG and PSG products would travel, along with the improved service standards for RG and PSG products that this network (which, as explained, will contain fewer touchpoints) would allow the Postal Service to meet. Finally, I describe certain exceptions to the planned changes, which subdivide roughly into two categories: RG and PSG shipments that would for the time being remain within the current transportation network, and to which the current service standards would therefore continue to apply; and RG and PSG shipments that, while falling within the planned service standards, would deviate from the operational methodology detailed below.

II. PLANNED OPERATIONAL CHANGES

A. Background

The RG and PSG products and the planned service standard changes are described in the testimony of USPS Witness Steven Jarboe (USPS-T-1).

B. Present Operational State of Retail Ground and Parcel Select Ground

1. Retail Ground

It is useful, in conceptualizing the current-state trajectory of RG shipments, to list the processing nodes (or “touches”) through which, from origin to destination point, those shipments travel.

- *Touch 1:* The trajectory of an RG package begins at the Post Office. A customer, seeking an economical shipping option for a package that meets the requisite weight and size criteria, purchases the Retail Ground Service product. A label bearing the Retail Distribution Code (RDC) for Retail Ground Service is affixed to the package to be shipped. This label corresponds to a bin for Retail Ground mailings, to which the package is accordingly consigned.¹ These bins may bear one of two designations: “Retail Ground 1,” for packages shipped to tier the 1 host Network Distribution Center (NDC) for local destination points; and “Retail Ground 2,” for packages that will travel longer distances and are (as described below) routed to the tier 2 NDCs for destinations outside the local area.
- *Touch 2:* The Retail Ground bins travel to a Processing and Distribution Center (P&DC). P&DCs, generally speaking, are facilities that process and dispatch

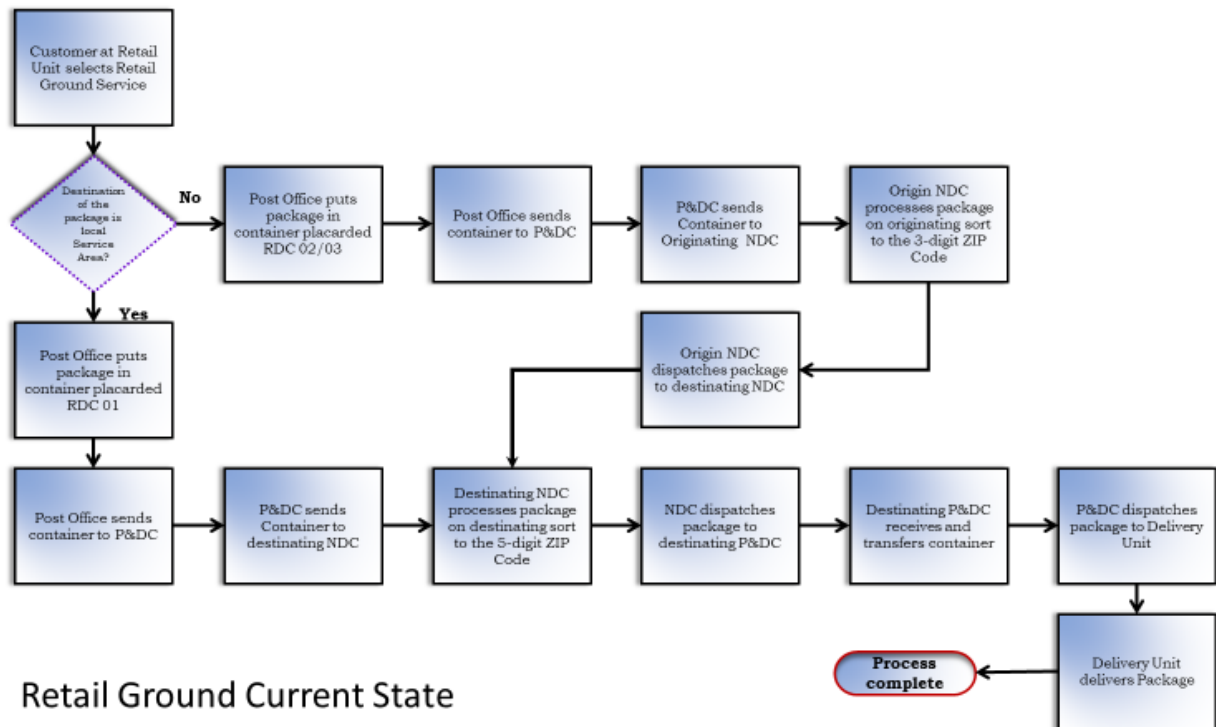
¹ The RDC value printed on the mailing label corresponds to a placarded container in which the Retail Associate is to place the mail piece. If the ZIP Code on any RG package is within the ZIP Code of the local NDC, then the package will receive a “1” on the label. RDCs 2 and 3, on the other hand, are assigned when the destination ZIP Code falls outside that of the local NDC.

1 volume arriving from Post Offices and collection boxes in specific geographic
2 locations. Here, RG bins are grouped together and placed on trailers that convey
3 them to geographically appropriate NDCs.

- 4 • *Touch 3:* Formerly known as Bulk Mail Centers, NDCs are designed to
5 consolidate the processing of certain categories of mail. This means, in practical
6 terms and with specific reference to RG Service, that the RG bins arriving from
7 the P&DCs mentioned above are sorted into groups based on their respective
8 destination ZIP Codes. Note that at this point in the operational flow
9 methodology, a bifurcation occurs. RG bins bearing the “Retail Ground 1”
10 designation—*i.e.*, bins containing packages shipped to local destination points—
11 arrive at tier 1 host NDCs, where they are sorted based on their full five-digit
12 destination ZIP Codes and are then routed to geographically appropriate P&DCs.
13 RG bins bearing the “Retail Ground 2” designation—*i.e.*, bins containing
14 packages shipped to destination points outside the local area—arrive at tier 2
15 NDCs, where they are sorted based on the first three digits of their destination
16 ZIP Codes and are then routed to destinating NDCs for further processing (as
17 described in “Touch 4” immediately below).
- 18 • *Touch 4 (for RG packages bearing the “Retail Ground 2” designation, which*
19 *travel to destinations outside the local area):* RG bins bearing the “Retail Ground
20 2” designation, previously sorted by 3-digit ZIP Code, are conveyed to
21 destinating NDCs, which further disaggregate those bins’ contents based on their
22 full five-digit destination ZIP Codes. This newly sorted RG volume is then
23 distributed to geographically appropriate P&DCs.

- *Touch 5:* Destinating P&DCs combine the RG volume they receive with other mail destined for the same 5-digit ZIP Code, and convey these new groupings to destination delivery units.
- *Touch 6:* From these destination delivery units, RG packages are delivered to their destination address.

Below is a graphic representation of the current-state trajectory of RG shipments, accounting for the difference between local-destinating and non-local-destinating shipments:



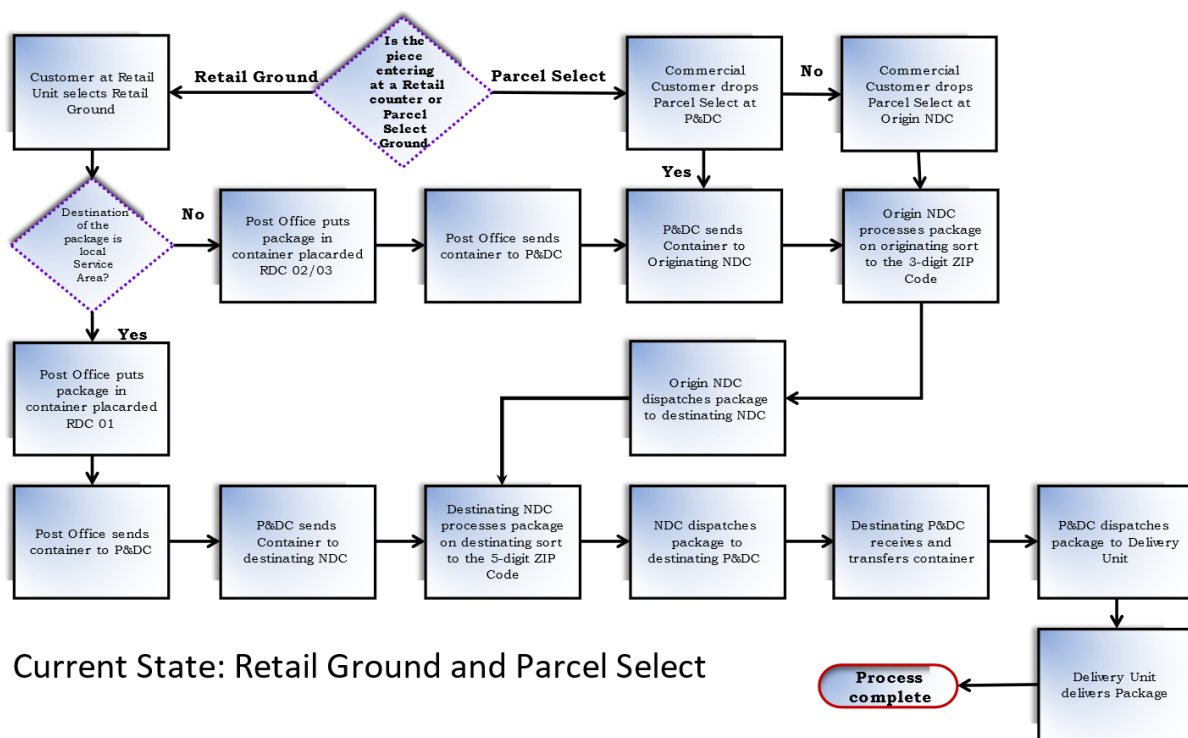
Retail Ground Current State

2. Parcel Select Ground

The PSG Service is similar to the Retail Ground Service but is targeted at large- and medium-sized commercial shippers (including competitors like FedEx and UPS).

1 As such, the current state trajectory of PSG packages is identical to that of RG
 2 packages—with one difference: PSG need not originate at Post Offices, but can be
 3 received at P&DCs or NDCs, at which point it continues along the path described
 4 above.

5 Below is a graphic representation of the combined current-state trajectory of RG
 6 and PSG shipments, accounting for the difference between local-destinating and non-
 7 local-destinating shipments:



9 The service standards and corresponding business rules for PSG shipments are
 10 identical to those for RG shipments.

11 C. Future Operational State of Retail Ground and Parcel Select

12 1. RG

13 a.) *Operational Flow*

1 In the future state, in the contiguous U.S., certain RG packages would be
2 processed and transported together with First-Class Package Service (FCPS)
3 shipments. This consolidation would result in a new operational flow, which boasts the
4 advantage of requiring fewer touchpoints.

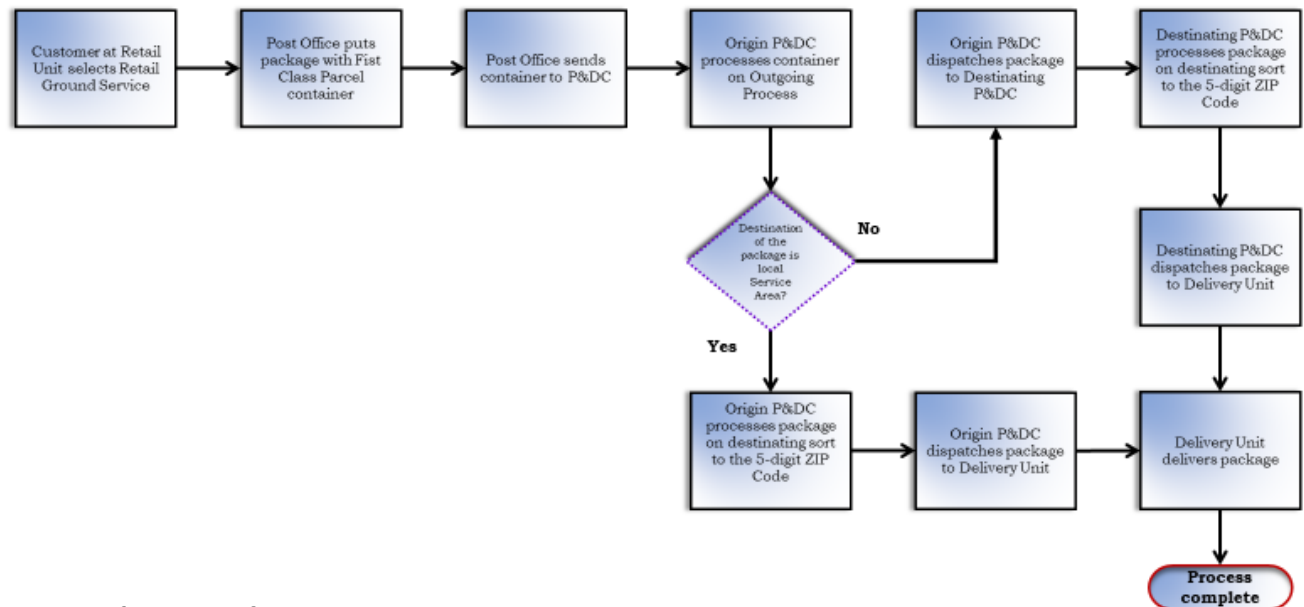
- 5 • *Touch 1:* As in the current state, RG packages would begin their future state
6 trajectory at a Post Office, where they would be merged with FCPS shipments.
7 (Note that the distinction, in the current state described above, between “Retail
8 Ground 1” and “Retail Ground 2” labelling would no longer be required.)

- 9 • *Touch 2:* RG packages would then travel to origin P&DCs, where they would be
10 sorted based on their respective destination ZIP Codes. (Note that at this point
11 in the future state operational flow methodology, a bifurcation would occur: RG
12 shipments heading to local destination points would be sorted based on their full
13 five-digit destination ZIP Codes and would then be routed to delivery units for
14 final delivery, whereas RG shipments heading to destination points outside the
15 local area would be sorted based on the first three digits of their destination ZIP
16 Codes and would then be routed to destinating P&DCs for further processing).

- 17 • *Touch 3 (for RG packages travelling to destinations outside the local area):*
18 Based on their 3-digit ZIP Codes, RG packages would next travel to destination
19 P&DCs, where they would be further sorted based on their full five-digit
20 destination ZIP Codes, merged with other volume destined for the same ZIP
21 Code, and conveyed within this new grouping to destination delivery units.

- 22 • *Touch 4:* From these destination units, the RG packages would then be delivered
23 to their destination addresses.

- 1 In the future state, the RG packages would therefore traverse fewer discrete
- 2 touchpoints:



Retail Ground Future State

- 5 This streamlined operational scheme would allow certain RG items in the
- 6 contiguous United States to reach their destination sooner. The Postal Service
- 7 accordingly plans to implement, in lieu of the current two-to-eight day service standard,
- 8 a two-to-five day service standard. Specifically, the Postal Service is planning to apply
- 9 a two-day service standard where the combined drivetime between origin P&DC and
- 10 destination P&DC is eight hours or less. A three-day service standard would apply to
- 11 inter-Sectional Center Facility (SCF) volume where the combined drive time between
- 12 origin P&DC, destination ADC, and destination SCF is more than eight hours, but does
- 13 not exceed 32 hours. Where the drive time between origin P&DC, destination ADC, and
- 14 destination SCF is between 32 and 50 hours, the Postal Service is planning a four-day

service standard. A five-day service standard would apply in the contiguous 48 states if the drive time between origin P&DC, destination ADC, and destination SCF exceeds 50 hours—for some lanes, packages may need to be transported by air to meet the 5-day standard.

Below is a table comparing the business rules currently in place to those that would be in place under the new operational methodology and its corresponding service standards. As can be seen, these changes would entail a marked simplification:

Service Standard	Current Rules (Contiguous US)	Planned Rules (Contiguous US)
2-day	If Origin and Destination Processing and Distribution Center (PDC) are the same facility, then Service Standard is 2 days.	Intra-SCF and Origin to Destination pairs where total transit time is up to 8-hrs* (~372 miles) from Origin to Destination ADC to Destination SCF.
3-day	If Origin and Destination Processing and Distribution Center (PDC) are not the same facility, then the package is routed through a Network Distribution Center (NDC) and an Auxiliary Service Facility (ASF), if needed. If Origin and Destination NDC are the same, and there is no ASF required, then Service Standard is 3 days.	Where the total transit time is greater than 8-hrs and up to 32-hrs* (~1,488 miles) from Origin PDC to Destination ADC to Destination SCF.
4-day	If Origin and Destination NDC are the same, and there is an ASF required, then Service Standard is 4 days.	Where the total transit time is greater than 32-hrs and up to 50-hrs* (~2,325 miles) from Origin PDC to Destination ADC to Destination SCF.
5-day	If Origin and Destination NDC are not the same, determine the travel days between NDC facilities. If an ASF is not required, and the travel time between NDC facilities is 1 day or less, then the Service Standard is 5 days.	Where the total transit time is greater than 50-hrs from Origin PDC to Destination ADC to Destination SCF.
6-8 day	If Origin and Destination NDC are not the same, determine the travel days between NDC facilities within Service Standard Directory (SSD). If ASF is not required, then the Service Standard equals the travel time of 2 or more + 4.	N/A
		N/A
		N/A

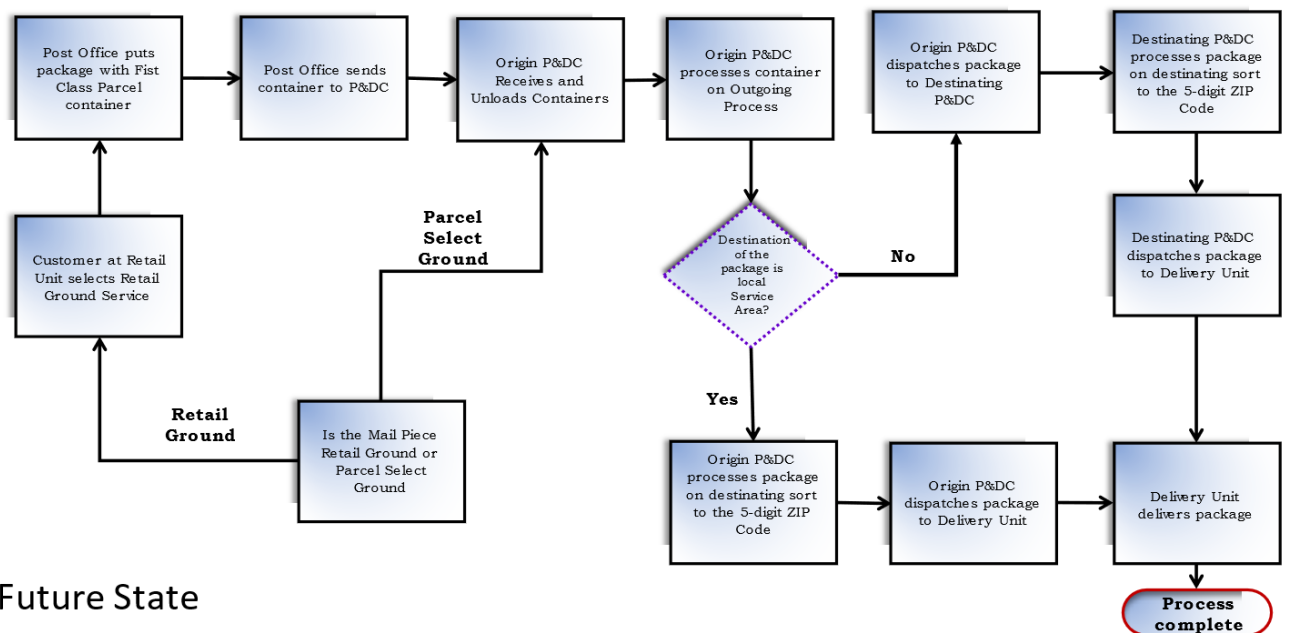
	If ASF is required, then the Service Standard equals the travel time of 2 or more + 5.	
--	--	--

2. PSG

PSG Full-Network shipments,² in the future state, would follow the same trajectory as that outlined above for RG shipments—with one difference: as in the current state, PSG products could be deposited at P&DCs or NDCs as well as at Post Offices. PSG shipments deposited at P&DCs would be transferred to FCPS containers, along with RG shipments and PSG shipments originating at retail locations. PSG shipments deposited at NDCs would be routed to P&DCs, where they would likewise be transferred to FCPS containers.

Below is a graphic representation of the combined future-state trajectory of RG and PSG shipments, accounting for the difference between local-destinating and non-local-destinating shipments:

² To be clear, within the Parcel Select product line, the planned changes would only apply to the “end-to-end,” or full-network PSG product and not to the Parcel Select Destination Entry product, which is subject to its own 1- to 3-day service standard.



- 2 The new service standards and corresponding business rules for PSG shipments would
- 3 be identical to those for RG shipments.

4 **C. Benefit to Customers**

- 5 The fundamental benefit of the upgraded service standards is to enhance service
- 6 to customers sending larger packages.³ For both RG and PSG, the 3-digit OD Pairs in
- 7 the contiguous United States subject to a service standard change would shift to align
- 8 with those for FCPS in the Contiguous United States.⁴

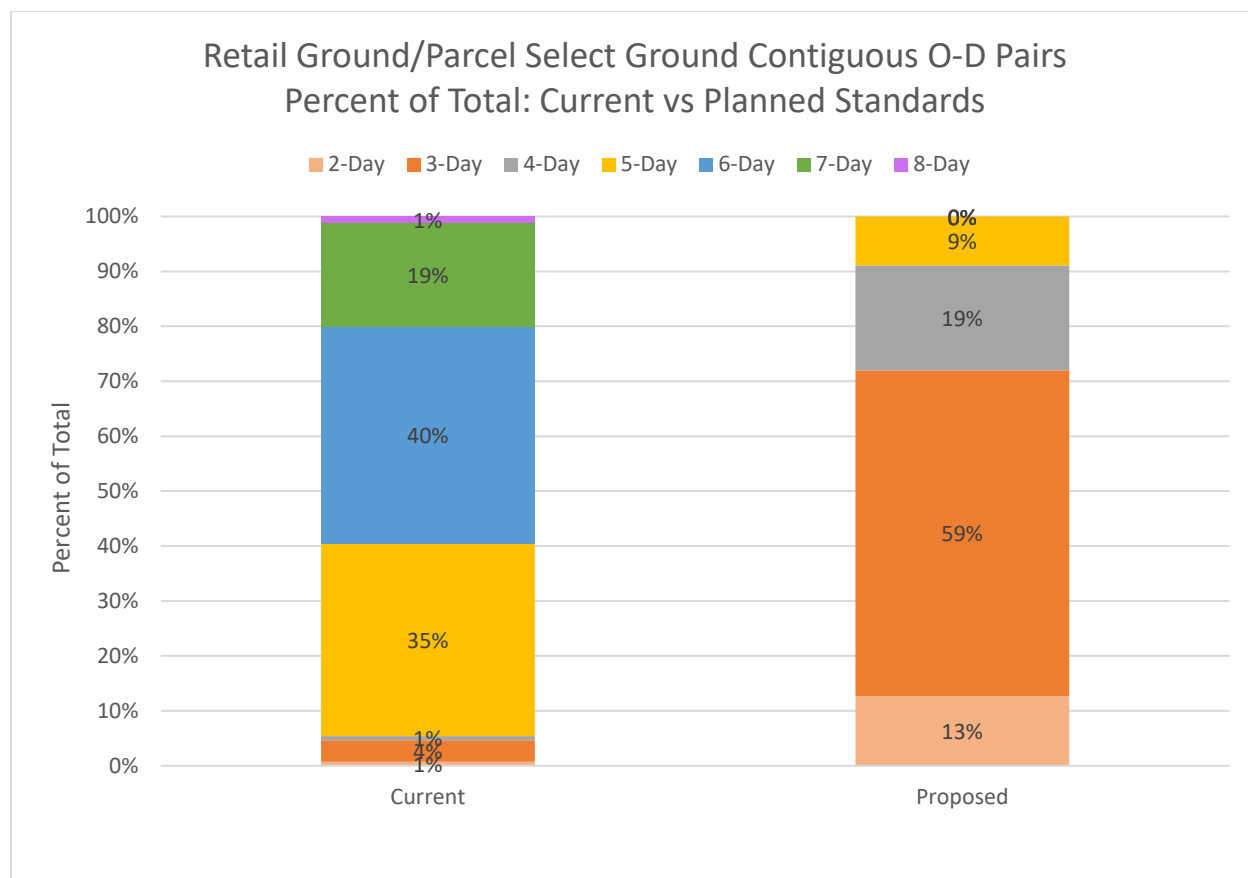
³ For information concerning volume impacts, see USPS-LR-N2022-1-NP4 (RG-PSG Service Standards Change to FCP - Contiguous Only.xlsx).

⁴ Note that, despite apparent discrepancies, these numbers align with those presented in Library Reference N2021-2-LR-2, Model Input Data (Witness Hagenstein), filed in Docket No. 2021-2, June 17, 2021. The projected OD Pair realignment for FCPS there included offshore OD Pairs. The table below is restricted to OD Pairs in the contiguous United States. See USPS-LR-N2022-1-NP4 (RG-PSG Service Standards Change to FCP – CONUS_OCONUS.xlsx), and USPS-LR-N2022-1-NP4 (RG-PSG Service Standards Change to FCP - Contiguous Only.xlsx).

1

Retail Ground and Parcel Select Ground		
Number of 3-Digit OD Pairs in the Contiguous United States Subject to Service Standard Change		
	Current Service Standards	Planned Service Standards
2-Day	6,305	105,049
3-Day	31,973	491,638
4-Day	6,554	158,612
5-Day	290,402	73,655
6-Day	327,556	-
7-Day	155,939	-
8-Day	10,225	-

2 As the volume shift described above indicates, this reallocation of service
 3 standards to OD pairs would represent a significant improvement over the current state:



The planned changes would have no effect on service standards for international packages. International Service Centers would continue to process packages destined for all international postal codes.

D. Capacity

The Postal Service anticipates that the surface transportation network in place for FCPS contains sufficient capacity to absorb future volumes of RG and PSG shipments. In surface transportation for FCPS, floor utilization rates typically range from 42 to 48 percent.⁵ Thus, from December 11, 2021, through March 7, 2022, plant to plant Highway Contract Route (HCR) transportation, excluding Surface Transfer Centers

⁵ Note that these calculations average out floor utilization across the network, and are unweighted by mileage (*i.e.*, a 10-mile surface leg departing 50 percent full to pick-up volume from another site and then departing 100 percent full, traveling 500 miles, would result in 75 percent utilization).

(STCs), averaged approximately 46 percent. Floor utilization for STC transportation was only slightly higher at 62 percent.⁶

The relatively small volumes attributable to RG and PSG would not exceed the surface network's capacity. By occupying underutilized space, the bundling together of RG and PSG with FCPS would, in fact, be expected to confer gains in efficiency.

III. Exceptions

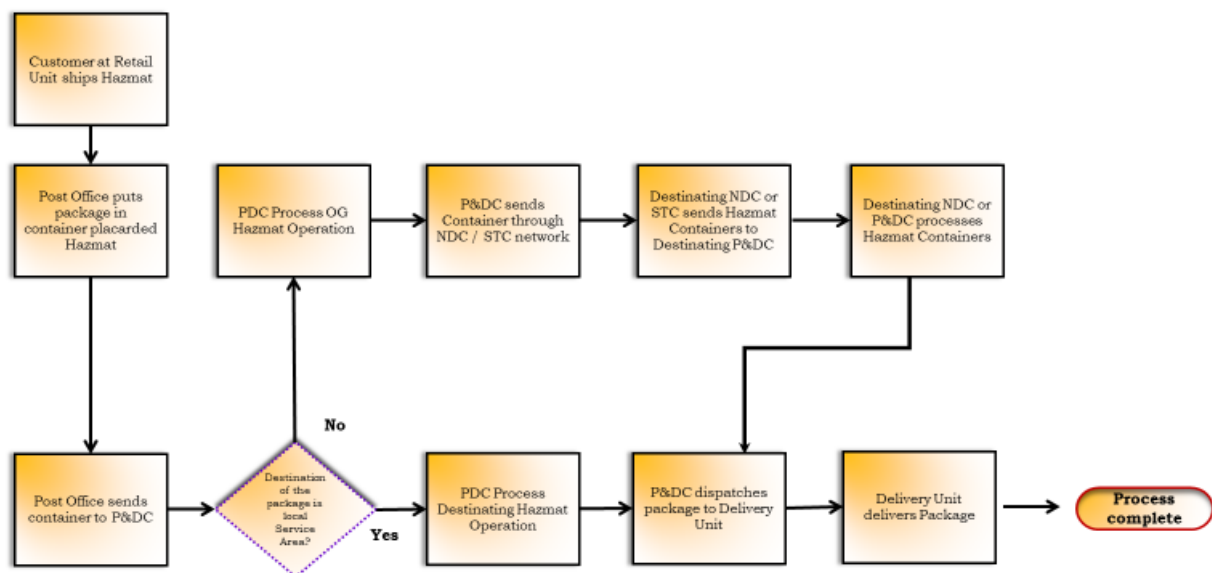
A. Exceptions to the Planned Service Standard

The planned service standard changes would not apply to Hazardous Materials (HAZMAT) shipments, certain live animal shipments, and offshore (*i.e.*, beyond the contiguous United States, *e.g.*, Alaska and Hawaii) shipments, which would continue to travel via the transportation networks currently in place for them. They would therefore be exempted from the planned changes, and the service standards for each would accordingly remain unchanged.

HAZMAT shipments would continue to follow the path currently assigned to them; it is similar to that, described above, along which RG and PSG packages currently travel. That is, HAZMAT shipments would enter the Postal Service's network at a retail location, where they would be identified as HAZMAT and labelled accordingly; would then traverse several touchpoints, where they would be processed, sorted, and routed; and would be delivered to their final address from a destination area delivery unit. As with RG and PSG in the current state, HAZMAT containers shipped to local destination points would travel to P&DCs, where they would be sorted according to their full five-digit destination ZIP Codes; and would then be routed to destination area

⁶ These data were drawn from the SVweb, Transportation Summary Dashboard.

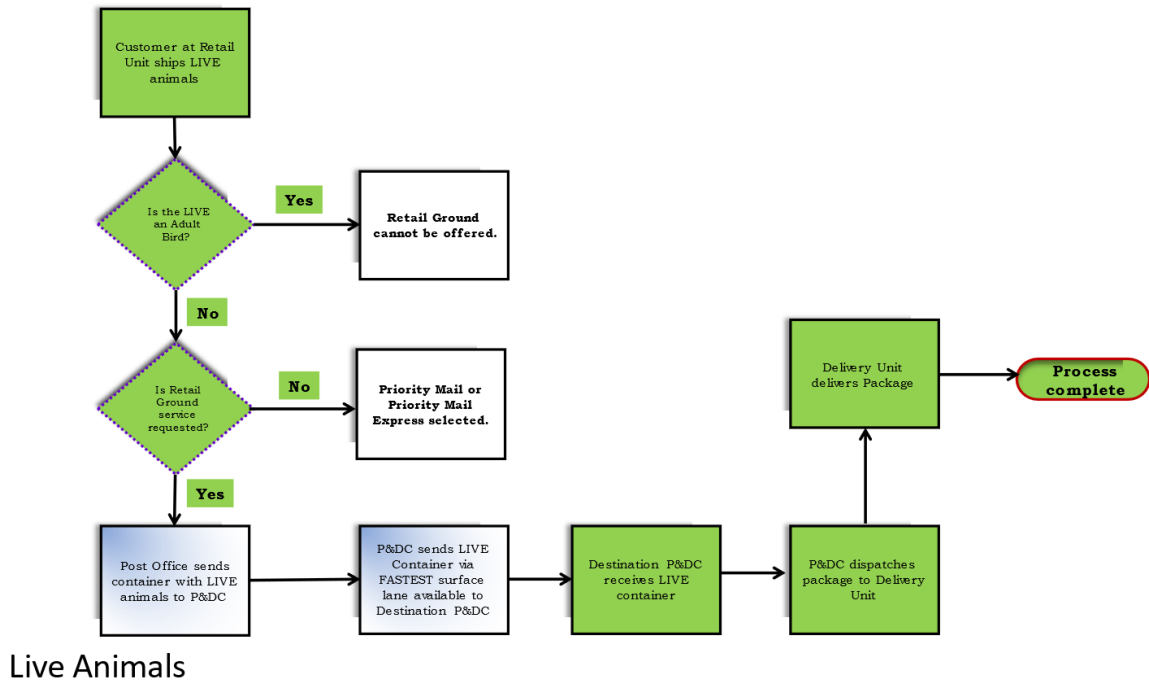
1 delivery units. HAZMAT containers shipped to destinations outside their local area
 2 would receive initial processing at P&DCs; would be routed to originating NDCs or
 3 STCs; would then be routed to destinating NDCs or STCs, where they would be sorted
 4 according to their full five-digit destination ZIP Codes; and would finally travel to
 5 destination area delivery units. The operational flow methodology for HAZMAT
 6 shipments in both the current and future state is, therefore, as follows:



Hazmat – STC Surface Network

8 Live animals shipped by RG would also be excepted from the planned changes.
 9 Note that only a subset of live animals are eligible to be shipped by way of RG. Those
 10 shipments would continue to follow the path currently assigned to them. That is,
 11 containers with live animals would be sent to an originating P&DC, which would
 12 dispatch them via the fastest surface lane available to a destination P&DC; from there,
 13 they would be conveyed to a delivery unit, from which they would be delivered to their

- 1 destination address. The operational flow methodology for live animal RG shipments in
- 2 both the current and future state is, therefore, as follows:



- 4 Offshore products would continue to travel to geographically appropriate points of
- 5 departure in the contiguous United States, from which they would be dispatched via
- 6 cargo ship to offshore processing plants that would sort and convey them to Post
- 7 Offices in their destination ZIP Codes for delivery. As for why offshore shipments
- 8 would, at least initially, be excepted from any upgrade in service standards, please note
- 9 that the new RG and PSG service standards are predicated on the planned change to
- 10 the FCPS service standards and the concomitant improvement and optimization of the
- 11 Postal Service's package processing and surface transportation network; they therefore
- 12 depend on consolidation with FCPS domestic surface volumes. If the planned FCPS
- 13 standards were applied to domestic RG and PSG packages originating and destinating
- 14 outside the contiguous United States, that volume would have to be carried by air to

1 meet the planned service standard, which cannot be done cost effectively. Even after
2 the planned changes come into effect, RG and PSG packages sent to or from domestic
3 locations outside the contiguous United States would, for the time being, continue to be
4 shipped by current modes of transportation in accordance with the current service
5 standards. That said, the Postal Service is exploring whether this proposal could
6 enable the Postal Service to adjust the service standards for pieces originating or
7 destinating outside the contiguous United States which traverse the contiguous United
8 States during some portion of their journey, in order, potentially, to leverage the faster
9 service that this proposal would afford to RG and PSG within the contiguous United
10 States.

11 **B. Exceptions to the Planned Operational Flow**

12 Given the current state of the FCPS surface transportation network, some RG
13 and PSG packages travelling within the contiguous United States may need to be
14 shipped via air transport. This may occur for one of two reasons: (1) surface transport
15 is not feasible within the 5-day window; or (2) there is not enough density to justify the
16 cost of ground transportation versus air. In selecting the proper mode of transport for a
17 given shipment, the Postal Service first assesses the transit time between OD pairs to
18 determine if the transportation network is capable of conveying it to its destination by
19 the Critical Entry Time (CET). For this assessment, the following assumptions are
20 applied: a departure time of ~4:00 a.m.; a driving speed of 46.5 mph the length of the
21 OD pair; and an arrival time at the destination processing facility no later than the CET
22 for the day before expected delivery. (Note that some flexibility persists with regard to
23 origin departure time and highway speed, depending on the OD pairs involved). If, as
24 would most usually be the case, delivery by surface transportation is deemed logistically

1 viable, cost would then be taken into account. Specifically, for any given package, the
2 price of surface transportation over a given distance would be compared to the price
3 that that package would incur on the air transportation network.⁷

4 Currently, an estimated 14.0 percent of RG volume and 15.6 percent of PSG
5 volume travels by air. Based on the consolidation of RG and PSG with other First-Class
6 volume, the Postal Service estimates that air volume for RG will increase to 28.9% and
7 PSG to 15.88%.⁸ The ratio of air to surface volume is expected to decrease over time.
8 As the surface transportation network grows, the Postal Service will have less frequent
9 recourse to the air transportation option, and it therefore anticipates that the air
10 transportation option will eventually become almost entirely eclipsed by the surface
11 transportation network. In that environment, a vast preponderance of RG and PSG
12 packages would travel on the ground.

13 **IV. CONCLUSION**

14 Shifting RG and PSG volume to follow FCPS volume would improve processing
15 times by reducing the number of touches that RG-PSG packages receive during
16 processing. Consolidation with FCPS would also enable the further optimization of the
17 Postal Service's package processing and surface transportation networks and would
18 maximize surface transportation utility and value. The elimination of interim processing

⁷ In order to estimate surface transportation cost, the Postal Service (1) determines the total number of containers based on volume and National Distribution Labelling List separations; (2) the total cost of surface trip(s), using the formula (miles * \$/mile * trips); and (3) the cost based on longest leg of trip (typically would be origin to DSTC). In order to determine the cost of air transportation, the postal service applies one of two formulas: (cu-ft of volume * \$/(cu-ft)); or, alternately air assignment (wt (lbs)) * (\$/lbs). Assignment data can be used to determine weight and estimate cube, or pieces can be converted to cubic feet based on MODS conversions into containers.

⁸ USPS-LR-N2022-1-NP4, Service Standard Impact Analysis.

- 1 stops would reduce the overall processing burden, and the combination of multiple sorts
- 2 would improve volume and capacity in surface lanes.

**DECLARATION AND TESTIMONY OF WITNESS A. THOMAS BOZZO
(USPS-T-3)**

POSTAL REGULATORY COMMISSION
DOCKET NO. N2022-1

DECLARATION OF UNITED STATES POSTAL SERVICE WITNESS
A. THOMAS BOZZO

I, A. Thomas Bozzo, hereby declare, under penalty of perjury, that:

1. The attached Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service, USPS-T-3 (revised), was prepared by me or under my direction, and is true and correct to the best of my information, knowledge, and belief.

2. If I were to testify orally today, my testimony would be the same as that reflected in the written testimony.

3. I am sponsoring the following Library References:

Public:

Title

USPS-LR-N2022-1-1 (revised) Cost Information

Nonpublic:

USPS-LR-N2022-1-NP3
(original)

Mail Processing and Transportation
Cost Information

USPS-LR-N2022-1-NP3
(revised)

Mail Processing and Transportation
Cost Information

A. Thomas Bozzo

A. Thomas Bozzo

DATE: April 19, 2022

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RETAIL GROUND AND PARCEL SELECT GROUND
SERVICE STANDARD CHANGES, 2022

Docket No. N2022-1

**DIRECT TESTIMONY OF
A. THOMAS BOZZO
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

(USPS-T-3)

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AUTOBIOGRAPHICAL SKETCH

My name is A. Thomas Bozzo. I am a Vice President with Laurits R. Christensen Associates (LRCA), which is an economic research and consulting firm located in Madison, Wisconsin. My education includes a B.A. in economics and English from the University of Delaware, and a Ph.D. in economics from the University of Maryland-College Park. My major fields were econometrics and economic history, and I also completed advanced coursework in industrial organization. In the 1995-1996 academic year, I taught undergraduate microeconomics and statistics at Maryland, and monetary economics at the University of Delaware. I joined LRCA as an Economist in June 1996, was promoted to Senior Economist in January 1997, and to my present position in January 2003.

Much of my work at LRCA has dealt with theoretical, statistical, and measurement issues related to Postal Service costing, particularly for mail processing. My current responsibilities include supervising production of Cost Segment 3 (Clerk and Mail Handler) cost inputs to the Postal Service's Cost and Revenue Analysis and of labor productivity data for mail processing operations provided in the Annual Compliance Report (ACR). I presented testimony related to costing and data systems in the Docket Nos. R2000-1, R2001-1, R2005-1, and R2006-1 rate cases. In addition to numerous other projects for the Postal Service, I managed projects related to the demand for market dominant products and service-related mail processing costs for USPS Office of Inspector General (OIG). I have also worked on economic and econometric analysis projects for the telecommunications, freight railroad, electricity, and natural gas distribution industries.

1 **PURPOSE OF TESTIMONY**

2 The purpose of my testimony is to describe the methodology that the Postal
3 Service has used to estimate the expected mail processing and transportation cost
4 changes resulting from the planned changes in service standards. I will also present
5 the overall estimated change in cost.

1 **ASSOCIATED LIBRARY REFERENCES**

2 I sponsor the following public USPS Library Reference that is associated with my
3 testimony:

4 USPS-LR-N2022-1-1

5 I sponsor the following non-public USPS Library Reference that is associated
6 with my testimony:

7 USPS-LR-N2022-1-NP3.

1 **I. ESTIMATED COST IMPACTS FROM SERVICE CHANGES**

2 **A. Methodology for Estimating the Cost Impact Caused by the Planned**
3 **Change in Service Standards**

4 The purpose of this section is to describe the methodology used to estimate the
5 potential annual cost impact from the planned changes in Parcel Select Ground (PSG)
6 and Retail Ground (RG) service standards.

7 Witness Bray (USPS-T-2) describes the current PSG and RG mail flows and
8 changes to PSG and RG mail processing and transportation that will implement the
9 planned service changes. These changes involve processing and transporting PSG
10 and RG with First-Class Package Service (FCPS).

11 While improving service standards for PSG and RG might be expected to
12 increase costs, other things equal, the operational implementation described by witness
13 Bray has potential sources of cost efficiencies. Notably, moving PSG and RG pieces to
14 the FCPS mail stream as described may reduce mail processing costs on net by
15 reducing or eliminating “touches” of PSG and RG in the Network Distribution Center
16 (NDC) network. The relatively small addition of workload from PSG and RG volumes
17 should have negligible effects on existing processing of FCPS and other parcel products
18 in plants.

19 Transportation impacts result from mode shifts required to meet the planned
20 service standards. Some high-zone PSG and RG pieces currently transported by
21 surface modes will require FedEx Day Turn air transportation to meet the planned
22 service standards. Relatedly, some FCPS will shift from commercial flights to FedEx

Day Turn transportation since mixed FCPS, PSG, and RG pieces will include parcels exceeding weight limits for commercial air transportation.

To estimate cost impacts from the operational changes, I compare mail processing and transportation costs for PSG and RG based on current mailflows to estimated costs for mailflows under the planned service standards. Costs representing the current PSG mailflows are available using Commission-accepted methodology from models provided in the Postal Service's Annual Compliance Report (ACR), folders USPS-FY21-NP15 (mail processing) and USPS-FY21-NP16 (transportation).

Mail processing costs for the future state can be estimated by modifying the USPS-FY21-NP15 PSG models from the ACR to reflect FCPS mailflows. The modified models are provided in USPS-N2022-1-NP3. The PSG mail processing models also are the best available basis for estimating cost impacts for RG. As described by witness Bray, the mail processing flows for RG in both the current and future states are identical to the PSG flow for pieces entered at post offices. Thus, the PSG mail processing and transportation models may be adapted to estimate the change in RG mail processing costs. Since the combined PSG and RG volume is small relative to FCPS, I assume that effects on FCPS mail processing costs from adding PSG and RG to the FCPS mailflows are negligible. Multiplying the unit cost differences by PSG and RG volumes provides the volume variable cost (VVC) impact, excluding any effects of volume changes induced by the service standard changes.

The transportation cost impacts are obtained by computing transportation costs per cubic foot in the current state for FCPS, PSG, and RG pieces that would change modes under the planned standards. Current-state costs are commercial air costs for

FCPS, and surface transportation costs from USPS-FY21-NP16 for PSG and RG. The future state cost per cubic foot is for FedEx Day Turn transportation. Similar to the mail processing calculations, the transportation cost impacts are derived by multiplying the cost differentials by the cubic feet of FCPS, PSG, and RG that would change transportation modes.

B. Cost Changes Arising from the Changes in Service Standards

i. Mail Processing Cost Changes

The FCPS mailflows that PSG and RG pieces will follow under the planned service standards, described by witness Bray, differ from current PSG and RG mailflows primarily in that FCPS mail processing and distribution is largely carried out at Processing and Distribution Centers (P&DCs) rather than Network Distribution Centers (NDCs). The modified PSG models accordingly include distribution handlings at origin and destination P&DCs.¹ The distribution handlings replace crossdock handlings in the current mailflow for pieces distributed in the P&DCs. While most outgoing FCPS pieces are processed and distributed at P&DCs, NDCs process some FCPS. I estimate the portion of FCPS that flows to NDCs using ODIS volume data. The FCPS fraction of pieces flowing to NDCs is assumed to be processed as in the existing PSG model through the origin NDC. FCPS pieces are sorted at origin to destinating P&DCs and thus bypass destination NDC and ASF handling.

The P&DC distribution handlings for machinable PSG pieces are assumed to be attempted on automated processing equipment—including the Automated Parcel and

¹ Since oversize pieces are a very small share of volume for both PSG and RG, I do not modify the PSG Oversize model for this exercise. The estimated cost impacts are not sensitive to changes in Oversize costs.

1 Bundle Sorter (APBS), Automated Package Processing System (APPS), and/or the
2 Small Package Sorting System (SPSS)—where available. Manual distribution is
3 assumed for pieces over 20 pounds, non-machinable pieces, and automation rejects.
4 To estimate labor productivities for automated P&DC parcel distribution operations, I
5 combine Management Operating Data System (MODS) data for APBS, APPS, and
6 SPSS operations defined for “FCM SPRS” (First-Class Mail small parcel and rolls)
7 processing (MODS 37x) with corresponding “Priority Mail” operations, distinguishing
8 outgoing from incoming productivities. This productivity estimate is used for two
9 reasons. First, a productivity differential between the MODS 37x operations and other
10 automated parcel processing at P&DCs is likely due, at least in part, to the small size of
11 FCPS pieces. Small FCPS piece size can increase productivities by reducing container
12 handlings within sorting operations. Thus, the MODS 37x productivities may not be
13 directly applicable to larger machinable PSG and RG pieces. Second, incoming
14 processing at P&DCs typically commingles parcel products, and the MODS 37x
15 operations are not representative of automated incoming FCPS processing. I compute
16 the other productivities for incoming and outgoing automated parcel processing using
17 the methodology from ACR folder USPS-FY21-23. Labor productivity for P&DC manual
18 parcel operations, from USPS-FY21-23, is incorporated in the (unmodified) USPS-
19 FY21-NP15 models. P&DC-processed PSG and RG are assumed to be dispatched
20 primarily in pallet boxes and wiretainers, with some use of APCs and OTRs.

21 While RG pieces follow the same mailflows as PSG pieces entered at origin
22 delivery units, it is not possible to distinguish machinable RG from non-machinable
23 (NMO) for the mail processing models. I estimate the RG cost differential as follows.

1 First, I adjust the PSG entry profile for both the current and future mailflows to 100
2 percent origin DU entry and compute the resulting unit mail processing costs from the
3 PSG model. I use RG values where possible in place of PSG values for volume-related
4 model inputs.² I scale the adjusted PSG model unit cost based on current mailflows to
5 piggybacked FY 2021 RG unit mail processing costs, similar to the application of the
6 proportional factor in the USPS-FY21-NP15 model costs. I use the resulting
7 proportional factor to adjust the estimated RG costs under the planned mailflows.

8 The estimated change in PSG mail processing cost is a reduction of \$14.9 million
9 based on FY2021 PSG volume. For RG, mail processing cost is estimated to decline
10 by \$17.1 million using FY2021 RG volume. The total mail processing cost impact is a
11 reduction of \$31.9 million for both PSG and RG.³ Please see folder USPS-N2022-
12 1/NPx for details of the calculations.

13 **ii. Transportation Cost Changes**

14 As noted above, transportation cost impacts arise from transportation mode shifts
15 for portions of FCPS, PSG, and RG volumes. The cost impact is calculated as the
16 change in transportation cost per cubic foot from the mode shift, multiplied by the total
17 cubic feet of mail subject to the shift.

18 For FCPS, the mode shift is from commercial air transportation to FedEx Day
19 Turn. Commercial air costs are weight-based, whereas FedEx Day Turn costs are
20 based on cubic volume; neither cost is distance-related. To calculate the cost
21 differential, I obtain commercial air cost per pound for FY2021 and divide by average

² Since RG volume data do not distinguish machinable from non-machinable RG volumes, I retain the PSG machinable/non-machinable mix as a proxy.

³ Note that total impacts reported here and below may differ from the sums of product-level impacts due to rounding.

pounds per cubic foot for FCPS to obtain the equivalent cost per cubic foot. I obtain the FedEx Day Turn cost per cubic foot and apply the cost differential to the estimated cubic feet of FCPS requiring FedEx Day Turn transportation under the planned standards. The mode shift is estimated to increase FCPS cost by \$40.4 million.

For PSG and RG, the required mode shift is from surface transportation to FedEx Day Turn air transportation. The surface transportation unit costs per cubic foot are distance-related (zoned), and costs based on Commission-accepted methodology are obtained from ACR2021 folder USPS-FY21-NP16. The FedEx Day Turn unit cost per cubic foot is the same as used in the FCPS calculation. The mode shift to air transportation is estimated to reduce transportation costs for high-zone PSG and RG, by \$0.1 million and \$4.6 million, respectively; the total cost change for both PSG and RG is a reduction of \$4.7 million. The result reflects relatively high costs for longer-distance (high zone) surface transportation movements under accepted methodology. The projected net transportation cost change is an increase of \$35.7 million. The cost impact calculations are provided in revised USPS-N2022-1-1 and USPS-N2022-1-NP3.

II. CONCLUSION

The planned service standards' merging of PSG and RG with FCPS mailflows will have small net impacts on the Postal Service's mail processing and purchased transportation costs. Reduced touches in mail processing operations are estimated to reduce costs by \$31.9 million based on FY2021 cost and volume inputs. The estimated effect on transportation cost is an increase of \$35.7 million. The estimated impacts are expected to reduce PSG and RG costs and thus enhance contribution from those products. The impact on FCPS contribution, and the estimated net cost increase of \$3.8 million, including mail processing and transportation cost impacts, are small.